Government of Canada Gouvernement du Canada

Department of Finance Canada

Canada

The Fiscal Monitor
A publication of the Department of Finance

Highlights

June 2016: budgetary deficit of $1.1 billion

There was a budgetary deficit of $1.1 billion in June 2016, compared to a surplus of $1.1 billion in June 2015. Revenues decreased by $0.5 billion, or 2.2 per cent, reflecting lower revenues from corporate income tax, non-resident income tax, and excise taxes and duties. Program expenses increased by $1.6 billion, or 7.5 per cent, reflecting increases in major transfers to other levels of government and direct program expenses, offset in part by a decrease in major transfers to persons. Public debt charges increased by $0.1 billion, or 3.1 per cent, due mainly to higher Consumer Price Index adjustments on Real Return Bonds that were partially offset by a lower average effective interest rate on the stock of interest-bearing debt.

April to June 2016: budgetary deficit of $1.0 billion

For the April to June 2016 period of the 2016–17 fiscal year, the Government posted a budgetary deficit of $1.0 billion, compared to a surplus of $5.0 billion reported in the same period of 2015–16. Revenues were down $1.5 billion, or 2.1 per cent, largely reflecting a decrease in other revenues. Program expenses were up $5.1 billion, or 8.3 per cent, reflecting increases in major transfers to persons and other levels of government and direct program expenses. Public debt charges were down $0.6 billion, or 8.9 per cent, largely reflecting a lower average effective interest rate on the stock of interest-bearing debt.

Quarterly update of the fiscal outlook

The financial results for the first three months of the fiscal year provide limited information with respect to the outlook for the year as a whole. This is because the timing of revenues and expenses can vary from year to year and because the results do not yet reflect several significant government initiatives, such as the introduction of the Canada Child Benefit. That being said, financial results over the April to June 2016 period show a budgetary deficit of $1.0 billion, which represents a $6.0-billion deterioration relative to the same period the previous year, indicating that results are broadly consistent with the fiscal projection for 2016–17 presented in the budget.

An update of the economic and fiscal outlook will be provided in the fall in the *Update of Economic and Fiscal Projections*.

June 2016

There was a budgetary deficit of $1.1 billion in June 2016, compared to a surplus of $1.1 billion in June 2015.

Revenues decreased by $0.5 billion, or 2.2 per cent, to $23.7 billion.

- Personal income tax revenues were up $26 million, or 0.2 per cent.
- Corporate income tax revenues were down $0.3 billion, or 7.2 per cent.
- Non-resident income tax revenues were down $0.2 billion, or 38.3 per cent.
- Excise taxes and duties were down $0.2 billion, or 3.9 per cent, driven mainly by a $0.1-billion, or 24.4-per-cent, decrease in energy tax revenues. Goods and Services Tax (GST) revenues were up $34 million, while customs import duties were down $5 million and other excise taxes and duties were down $0.1 billion.
- Employment Insurance (EI) premium revenues were up $29 million, or 1.3 per cent, reflecting growth in earnings.

- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, revenues from sales of goods and services, returns on investments, net foreign exchange revenues and miscellaneous revenues, were up $0.1 billion, or 5.1 per cent.

Program expenses in June 2016 were $22.9 billion, up $1.6 billion, or 7.5 per cent, from June 2015.

- Major transfers to persons, consisting of elderly, EI and children's benefits, decreased by $0.5 billion, or 6.3 per cent. Elderly benefits increased by $0.2 billion, or 4.2 per cent, due to growth in the elderly population and changes in consumer prices, to which benefits are fully indexed. EI benefit payments increased by $0.1 billion, or 4.8 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), decreased by $0.7 billion, or 30.7 per cent. This decline reflects the accrual of benefits related to the expansion and enhancement of the UCCB for the April to June 2015 period recorded in June 2015, which did not recur in June 2016.
- Major transfers to other levels of government consist of federal transfers in support of health and other social programs (primarily the Canada Health Transfer and the Canada Social Transfer), fiscal arrangements and other transfers (Equalization, transfers to the territories, as well as a number of smaller transfer programs), transfers to provinces on behalf of Canada's cities and communities, and the Quebec Abatement. Major transfers to other levels of government increased by $0.3 billion, or 5.3 per cent, mainly due to legislated growth in the Canada Health Transfer, the Canada Social Transfer, Equalization transfers and transfers to the territories.
- Direct program expenses include transfer payments to individuals and other organizations not included in major transfers to persons and other levels of government, and other direct program expenses, which consist of operating expenses of National Defence, other departments and agencies, and expenses of Crown corporations. Direct program expenses were up $1.8 billion, or 20.4 per cent. Within direct program expenses:
  - Transfer payments increased by $1.1 billion, or 39.6 per cent, due mainly to an increase in transfers for disaster assistance.
  - Other direct program expenses increased by $0.7 billion, or 11.8 per cent, due in large part to an increase in pension and benefit costs based on the Government's latest actuarial valuations and an increase in operating expenses of Crown corporations.

Public debt charges increased by $0.1 billion, or 3.1 per cent, due mainly to higher Consumer Price Index adjustments on Real Return Bonds that were partially offset by a lower average effective interest rate on the stock of interest-bearing debt.

April to June 2016

For the April to June 2016 period of the 2016–17 fiscal year, there was a budgetary deficit of $1.0 billion, compared to a surplus of $5.0 billion reported during the same period of 2015–16.

Revenues decreased by $1.5 billion, or 2.1 per cent, to $71.8 billion.

- Personal income tax revenues were up $0.4 billion, or 1.2 per cent.
- Corporate income tax revenues were up $0.2 billion, or 1.8 per cent.
- Non-resident income tax revenues were down $0.1 billion, or 4.5 per cent.
- Excise taxes and duties were down $0.4 billion, or 3.3 per cent, largely reflecting a $0.2-billion decrease in both energy tax revenues and GST revenues. Customs import duties were up $47 million and other excise taxes and duties were down $0.1 billion.
- EI premium revenues were up $0.1 billion, or 1.6 per cent, reflecting growth in earnings.
- Other revenues were down $1.7 billion, or 19.4 per cent. This decline largely reflects the $2.1-billion gain realized on the sale of the Government's remaining holdings of General Motors common shares in April 2015, which did not recur in 2016.

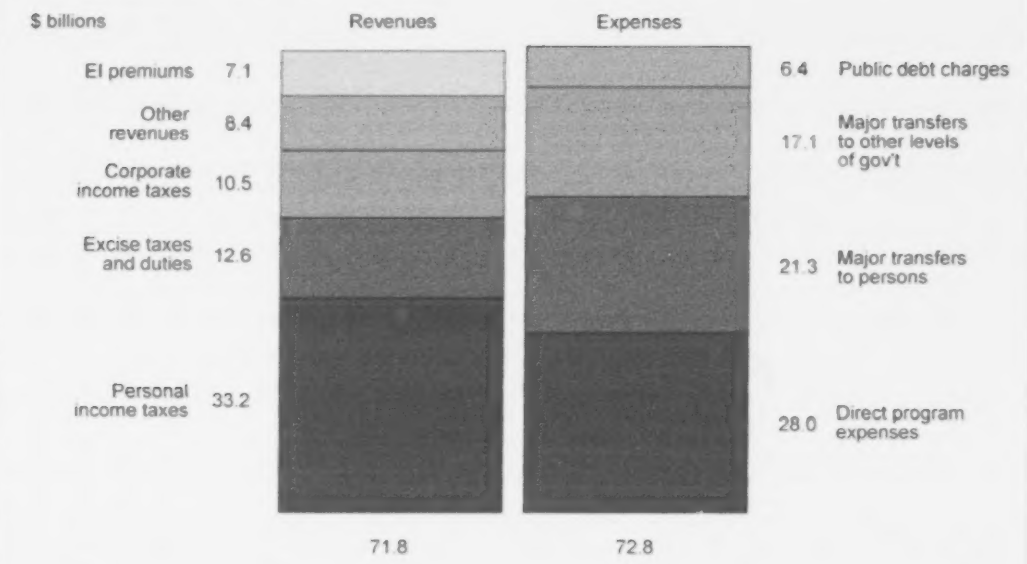
For the April to June 2016 period, program expenses were $66.4 billion, up $5.1 billion, or 8.3 per cent, from the

same period the previous year.

- Major transfers to persons were up $0.8 billion, or 4.0 per cent. Elderly benefits increased by $0.5 billion, or 4.1 per cent, reflecting growth in the elderly population and changes in consumer prices, to which benefits are fully indexed. EI benefit payments increased by $0.2 billion, or 3.8 per cent. Children's benefits were up $0.2 billion, or 4.0 per cent.
- Major transfers to other levels of government were up $0.8 billion, or 4.7 per cent, mainly reflecting legislated growth in the Canada Health Transfer, the Canada Social Transfer, Equalization transfers and transfers to the territories.
- Direct program expenses were up $3.5 billion, or 14.3 per cent. Within direct program expenses:
  - Transfer payments increased by $1.8 billion, or 23.9 per cent, reflecting year-over-year differences in the timing of transfers and an increase in transfers for disaster assistance.
  - Other direct program expenses increased by $1.7 billion, or 10.2 per cent, due in large part to an increase in pension and benefit costs based on the Government's latest actuarial valuations and an increase in operating expenses of Crown corporations.

Public debt charges decreased by $0.6 billion, or 8.9 per cent, largely reflecting a lower average effective interest rate on the stock of interest-bearing debt.

Revenues and expenses (April to June 2016)



Note: Totals may not add due to rounding.

Financial requirement of $13.6 billion for April to June 2016

The budgetary balance is presented on an accrual basis of accounting, recording government revenues and expenses when they are earned or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary deficit of $1.0 billion and a requirement of $12.6 billion from non-budgetary transactions, there was a financial requirement of $13.6 billion for the April to June 2016 period, compared to a financial requirement of $5.3 billion for the same period the previous year.

Net financing activities up $14.3 billion

The Government financed this financial requirement of $13.6 billion and increased cash balances by $0.7 billion by increasing unmatured debt by $14.3 billion. The increase in unmatured debt was achieved primarily through the issuance of treasury bills and foreign currency borrowings.

The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of June 2016 stood at $38.5 billion, up $10.5 billion from their level at the end of June 2015.

Table 1
Summary statement of transactions
$ millions

	June		April to June	
	2015	2016	2015–16	2016–17
Budgetary transactions				
Revenues	24,265	23,743	73,315	71,785
Expenses				
Program expenses	-21,269	-22,862	-61,296	-66,396
Public debt charges	-1,930	-1,990	-7,008	-6,384
Budgetary balance (deficit/surplus)	1,066	-1,109	5,011	-995
Non-budgetary transactions	-4,881	-3,957	-10,263	-12,582
Financial source/requirement	-3,815	-5,066	-5,252	-13,577
Net change in financing activities	-8,237	-9,015	5,301	14,251
Net change in cash balances	-12,052	-14,081	49	674
Cash balance at end of period			27,999	38,519

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Table 2
Revenues

	June			April to June		
	2015 ($ millions)	2016 ($ millions)	Change (%)	2015–16 ($ millions)	2016–17 ($ millions)	Change (%)
Tax revenues						
Income taxes						
Personal income tax	10,496	10,522	0.2	32,851	33,242	1.2
Corporate income tax	4,070	3,775	-7.2	10,298	10,479	1.8
Non-resident income tax	564	348	-38.3	1,370	1,308	-4.5
Total income tax	15,130	14,645	-3.2	44,519	45,029	1.1
Excise taxes and duties						
Goods and Services Tax	3,188	3,222	1.1	8,851	8,658	-2.2
Energy taxes	434	328	-24.4	1,376	1,179	-14.3
Customs import duties	444	439	-1.1	1,207	1,254	3.9
Other excise taxes and duties	630	526	-16.5	1,549	1,461	-5.7
Total excise taxes and duties	4,696	4,515	-3.9	12,983	12,552	-3.3
Total tax revenues	19,826	19,160	-3.4	57,502	57,581	0.1
Employment Insurance premiums	2,168	2,197	1.3	6,971	7,081	1.6
Other revenues	2,271	2,386	5.1	8,842	7,123	-19.4
Total revenues	24,265	23,743	-2.2	73,315	71,785	-2.1

Note: Totals may not add due to rounding.

Table 3
Expenses

	June			April to June		
	2015 ($ millions)	2016 ($ millions)	Change (%)	2015–16 ($ millions)	2016–17 ($ millions)	Change (%)
Major transfers to persons						
Elderly benefits	3,781	3,938	4.2	11,259	11,718	4.1
Employment Insurance benefits	1,330	1,394	4.8	4,816	4,998	3.8
Children's benefits	2,225	1,541	-30.7	4,414	4,591	4.0
Total	7,336	6,873	-6.3	20,489	21,307	4.0
Major transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	2,836	3,006	6.0	8,507	9,017	6.0
Canada Social Transfer	1,080	1,112	3.0	3,240	3,337	3.0
Total	3,916	4,118	5.2	11,747	12,354	5.2
Fiscal arrangements and other transfers	1,687	1,757	4.1	5,718	5,869	2.6
Canada's cities and communities	0	0	n/a	0	0	n/a
Quebec Abatement	-384	-381	-0.8	-1,153	-1,144	-0.8
Total	5,219	5,494	5.3	16,312	17,079	4.7
Direct program expenses						
Transfer payments						
Agriculture and Agri-Food Canada	113	59	-47.8	175	141	-19.4
Employment and Social Development Canada	733	716	-2.3	1,374	1,393	1.4
Global Affairs Canada	171	170	-0.6	530	642	21.1
Health Canada	201	257	27.9	861	984	14.3
Indigenous and Northern Affairs Canada	334	376	12.6	1,597	1,781	11.5
Innovation, Science and Economic Development Canada	239	165	-31.0	531	533	0.4

Other	910	2,027	122.7	2,368	3,739	57.9
Total	2,701	3,770	39.6	7,436	9,213	23.9
Other direct program expenses						
Crown corporations	661	836	26.5	2,030	2,315	14.0
National Defence	1,633	1,814	11.1	4,620	5,173	12.0
All other departments and agencies	3,719	4,075	9.6	10,409	11,309	8.6
Total other direct program expenses	6,013	6,725	11.8	17,059	18,797	10.2
Total direct program expenses	8,714	10,495	20.4	24,495	28,010	14.3
Total program expenses	21,269	22,862	7.5	61,296	66,396	8.3
Public debt charges	1,930	1,990	3.1	7,008	6,384	-8.9
Total expenses	23,199	24,852	7.1	68,304	72,780	6.6

Note: Totals may not add due to rounding.

Table 4
The budgetary balance and financial source/requirement
$ millions

	June		April to June	
	2015	**2016**	**2015–16**	**2016–17**
Budgetary balance (deficit/surplus)	1,066	-1,109	5,011	-995
Non-budgetary transactions				
Capital investment activities	-561	-153	-724	-431
Other investing activities	-172	-531	-294	-1,904
Pension and other accounts	-152	355	253	922
Other activities				
Accounts payable, receivables, accruals and allowances	-4,887	-6,853	-12,963	-11,062
Foreign exchange activities	478	3,121	2,284	-1,035
Amortization of tangible capital assets	413	104	1,181	928
Total other activities	-3,996	-3,628	-9,498	-11,169
Total non-budgetary transactions	-4,881	-3,957	-10,263	-12,582
Financial source/requirement	-3,815	-5,066	-5,252	-13,577

Note: Totals may not add due to rounding.

Table 5
Financial source/requirement and net financing activities
$ millions

	June		April to June	
	2015	**2016**	**2015–16**	**2016–17**
Financial source/requirement	-3,815	-5,066	-5,252	-13,577
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-7,689	-11,935	-987	168
Treasury bills	-2,800	4,800	5,200	14,000
Retail debt	-21	-76	-58	68
Total	-10,510	-7,211	4,155	14,236
Foreign currency borrowings	1,593	-159	1,059	1,089
Total	-8,917	-7,370	5,214	15,325
Cross-currency swap revaluation	542	-1,803	-215	-1,399
Unamortized discounts and premiums on market debt	176	201	393	419
Obligations related to capital leases and other unmatured debt	-38	-43	-91	-94
Net change in financing activities	-8,237	-9,015	5,301	14,251
Change in cash balance	-12,052	-14,081	49	674

Note: Totals may not add due to rounding.

Note: Unless otherwise noted, changes in financial results are presented on a year-over-year basis.

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